



COST ALLOCATION PLAN

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CSS Cost Allocation Plan Requirement

- **Directive CCD-15-03** - Cost allocation...plans will be required as part of the subrecipient's submission to a CSS Request for Proposal. Failure to submit plans that meet the requirements...will result in a nonresponsive proposal which shall not be considered for funding.
<http://css.lacounty.gov/programs/program-directives/>
- Contracts will require:
 - ☐ Annual written confirmation of CAP
 - ☐ Advance notice of revised CAP
 - ☐ Limit of one revised CAP per year
 - ☐ CAP revisions subject to CSS approval

Cost Allocation Plan Definition

Cost Allocation Plan (CAP)

- A contractor's written policy of the methods used to allocate indirect and/or shared costs.



What is “Cost Allocation”?

- **Cost Allocation** is how an organization assigns their “Total Cost” to their “Cost Objectives”.
 - “**Cost Objective**” is a particular award, contract, grant, project, service, or other activity of an organization.
 - “**Total Cost**” is composed of the sum of the allowable direct costs and allocable indirect costs.





Total Costs = Direct + Indirect + Shared

- Direct Costs – costs that can be identified specifically to a particular contract.
- Indirect Costs – costs that have been incurred for common or joint objectives and cannot readily be identified to a particular contract.
- Joint (Shared) Costs - (i.e., costs that benefit more than one program or activity) which can be distributed in reasonable proportion to the benefits received may also be direct costs.

Direct Costs

Typical examples of direct costs for many non-profit organizations may include:

- Salaries for staff that work on the contract
- Materials and supplies used specifically for the contract



Indirect Costs

Typical examples of indirect costs for many non-profit organizations may include:

- Depreciation on buildings and equipment
- Costs of operating and maintaining Administrative facilities
- General administration/overhead and general expenses, such as the salaries and expenses of executive officers, personnel administration and accounting



Joint (Shared) Costs

Typical examples of shared costs for many non-profit organizations may include:

- Rent
- Telephone
- Postage



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Cost Allocation Methods



Allowable Cost Allocation Methods

■ Acceptable Cost Allocation Methods

- Simplified Allocation Method
- Multiple Allocation Base Method
- Direct Allocation Method
- Federally Approved Rate
- Negotiated Indirect Cost Rate
- De Minimis Rate





Unallowable Cost Allocation Methods

- **Unacceptable Cost Allocation Methods**
 - Budgeted Rates
 - Estimated or Predetermined Rates
 - Number of Programs
 - 1/12 of the Annual Budget
 - Projected Revenue

Simplified Allocation Method

- **Simplified Allocation Method** is used whenever the major functions of an organization benefit from its indirect costs to approximately the same degree.
 - Classify total costs as either direct or indirect
 - Divide the total allowable indirect costs by an equitable distribution base

The result is an indirect cost rate which is used to distribute indirect costs to individual awards.



Multiple Allocation Base Method

- **Multiple Allocation Base Method** can be used when an organization's major functions benefit from its indirect costs in varying degrees.
 - Indirect costs are grouped based on the benefits provided to the major function.
 - Each group is then allocated individually using the basis most appropriate for the grouping being allocated



Direct Allocation Method

- **Direct Allocation Method** can be used when an organization treats all costs as direct costs except general administration and expenses.
 - Joint costs are prorated individually to each direct activity on a basis appropriate for that type of cost
 - Remaining costs (general administration and general are allocated using the simplified allocation method.

Federally Approved Rate



Negotiated Indirect Cost Rate

- **Negotiated Indirect Cost Rate** can be used when an organization does not have a federally approved indirect cost rate.
 - This rate is applied to the total approved direct cost base.



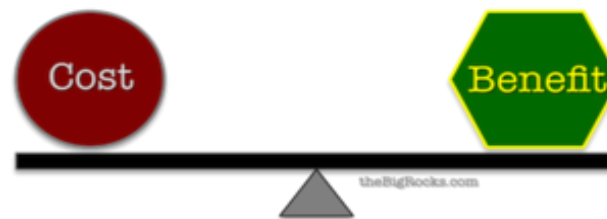
De Minimis Rate

- **De Minimis Rate** can be used when an organization has never had a negotiated indirect cost rate.



Cost Allocation Methods

- The allocation base used must be:
 - ❑ Allowable
 - ❑ Reasonable and consistently applied
 - ❑ Supported by accurate and current data
 - ❑ Appropriate to the particular cost being distributed
 - ❑ Equitable amongst benefitting programs



Documentation To Support Allocations

- Based on the methodology basis used, the contractor must maintain the following documentation to support the allocations:
 - **FTE (Full-Time Equivalent)**– Spreadsheet which includes the individuals in the FTE calculation and payroll documents to support the allocation of time for each individual.
 - **Direct Salaries** – Allocation Spreadsheets, Payroll Registers and Timecards/Time Reports
 - **Square Footage** – Floor plan or spreadsheet indicating how much space is occupied by EACH of the contracts or programs in that location.

Criteria





CSS Directive CCD-15-03

- Detailed requirements
- Sample allocations
- Example CAP

Auditor-Controller Handbook

- Section C.2.4 states the Agency's Cost Allocation Plan must be approved by management and identify the Contractor's:
 - General accounting policies
 - Basis of accounting (cash or accrual)
 - Fiscal year
 - Method for allocating indirect costs
 - Indirect cost allocation base
 - Direct and indirect costs (by category) and describe the cost allocation methodology for each category.
 - Signature of Contractor management certifying the accuracy of the plan.

Auditor-Controller Handbook

- Section C.2 states in accordance with the applicable OMB Circular(s), agencies shall define their allocable expenses as either direct or indirect costs and allocate each cost using the basis most appropriate and feasible.
- Section C.2 states for Contractors that operate programs or provide services in addition to the services required under contract, the Contractor shall allocate expenditures that benefit programs or funding sources on an *EQUITABLE BASIS*.



OMB SuperCircular

- OMB SuperCircular states budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards for salaries.
- OMB SuperCircular states any cost allocable to a particular award or other cost objective under these principles **MAY NOT BE SHIFTED TO OTHER FEDERAL AWARDS TO OVERCOME FUNDING DEFICIENCIES**, or to avoid restrictions imposed by law or by the terms of the award.

Acceptable Cost Allocation Plan Example

COST ALLOCATION PLAN

I. GENERAL INFORMATION

The purpose of this cost allocation plan is to summarize the methods and procedures that this organization will use to allocate costs to various programs, contracts and agreements. Only costs that are allowable, in accordance with the cost principles, will be allocated to benefiting programs by ABC Company.

A. POLICY

The plan describes the methods used to collect, analyze and distribute shared costs by the ABC Company. The methodologies and procedures described in the plan have been developed in accordance with Generally Accepted Accounting Principles and applicable regulations.

B. APPLICABILITY

This cost allocation plan is applicable to all contracts entered into by ABC Company. The general approach of ABC Company in allocating costs to particular contracts is as follows:

1. All allowable direct costs are charged directly to programs, grants, activity, etc.
2. Allowable direct costs that can be identified to more than one program are prorated individually as direct costs using a base most appropriate to the particular cost being prorated.
3. All other allowable general and administrative costs (costs that benefit all programs and cannot be identified to a specific program) are allocated to programs, grants, etc. using a base that results in an equitable distribution.

Acceptable Cost Allocation Plan Example

III. Cost Allocation Methodology Narrative

XYZ Corporation utilizes the Direct Allocation Methodology in allocating direct and indirect costs to its various contract program activities. Through providing legal services under the LA COUNTY contract, XYZ incurs direct labor, direct non-personnel and indirect/administrative costs. Direct cost that are readily identifiable as LA COUNTY contract activities are directly charged to the contract. Other direct costs that are shared are allocated based on the most appropriate identifiable cost basis, typically full time equivalent (FTE) personnel.

John Q. Doe

Chief Financial Officer

06/30/2013

Exercise

XYZ Corporation Cost Allocation Policy

Salaries/Personnel & Fringe Benefits – these costs are determined based on budgeted salaries.

Indirect/Administrative Costs – these costs are based on budgeted indirect cost percentages

All other costs will be allocated based on the number of programs.

What is wrong with this Cost Allocation Plan?

Exercise

- The Contractor allocates rent and utility expenses to CSS, DPSS and a non-LA County program based on square footage. The Contractor does not have a floor plan, but estimates that the CSS program uses 60% of their facility, DPSS uses 30%, and the non-LA County program uses 10%.

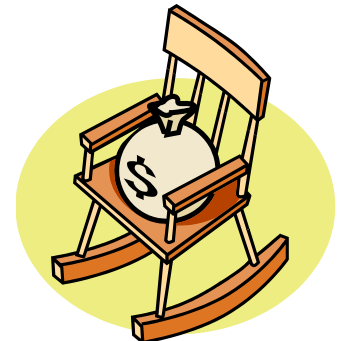
IS THIS CORRECT?



Exercise

- The Contractor purchased office furniture and supplies for a facility that operates both CSS and DPSS contract services. The Contractor bills 100% to CSS contract because the Contractor indicates that the CSS contract has a larger budget and they have already exceeded their DPSS contract budget.

IS THIS CORRECT?



Questions or Comments?

